

East Goshen Township Municipal Authority

Township of East Goshen, PA

General Obligation Notes 2013 Series

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Executive Summary

Kroll Bond Rating Agency (KBRA) has assigned a long-term rating of AAA with a stable outlook to the East Goshen Municipal Authority (the Authority), Pennsylvania's \$2.5 million General Obligation Notes 2013 Series. The KBRA rating is based on the East Goshen Township (the Township), Pennsylvania's full faith and credit general obligation guarantee, backed by its unlimited taxing power, on scheduled principal and interest due on the Notes. This rating applies to all of East Goshen Township's outstanding general obligation debt. East Goshen's direct debt, which includes all direct general obligation debt and guaranteed debt, will be \$17.6 million after issuance of these Notes.

This rating is based on KBRA's [U.S. Local General Obligation Rating Methodology](#), published on May 31, 2012. In the process of assigning the rating, KBRA reviewed multiple sources of information and spoke with Township management.

Security

The Notes are guaranteed by the Township's full faith and credit general obligation guarantee, backed by its unlimited taxing power on a parity with Notes issued in 1998 and 2008 for the same purpose. After this issuance, total amount of Guaranteed Sewer Revenue debt will be \$11.2 million. The Notes are first payable from the Township's annual lease rental payments to be paid to the Authority under the Lease Agreement. The Township makes lease payments out of its Sewer Revenue Fund from sewer rates and charges and these are also secured by a full faith and credit obligation of the Township. Under state statutes, the Township has the power to levy ad valorem property taxes on all taxable property in the Township, without limitation as to rate or amount, to pay debt service on the Notes.

The Authority is a component unit of the Township and was formed by the Township to finance its sewage collection and treatment system. Under the Lease Agreement between the Township and the Authority the Authority owns the sewer system. The system is leased back to the Township and the Township is responsible for operating and maintaining the system and setting sewer charges to support operating costs and pay annual lease rental payments to the Authority for debt service on the Notes.

Use of Proceeds

These Notes are being issued in connection with a borrowing from the Delaware Valley Regional Financing Authority, a loan program which provides financing for Pennsylvania municipalities and school districts. Proceeds will be used to reimburse the Authority's Sewer Capital Reserve Fund for costs already incurred for sewer treatment projects in 2013 and will fund a diversion project to a sewage treatment plant with costs expected to be incurred in 2014 and 2015. The Notes are scheduled to mature in 2033.

Key Rating Strengths

- Strong financial management policies and procedures which include frequent reporting of budget-to-actual performance and reporting financial results on a modified accrual basis.
- Available fund balance for FY 2012 was \$6.4 million or 79.4% of General Fund expenditures.
- High level of income per capita at approximately 171% of the state and U.S. average in 2012.

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- Good access to the employment markets of Philadelphia, Wilmington and surrounding Chester County.
- Liquidity position is very strong in FY 2012 with 466 days cash based on General Fund expenditures.

Key Rating Concerns

- Funded ratio in its regional police plan was below 75% as of January 1, 2013.
- General Fund Revenue base somewhat dependent on earned income taxes.



Rating Summary

East Goshen Township, with a population of 18,050, is a residential community in the suburbs of Philadelphia. The Township occupies a 10.1 square mile area and is located in Chester County, approximately 25 miles west of Philadelphia and 15 miles north of Wilmington, Delaware. The Township also has a diverse economic base with access to the Philadelphia and Wilmington labor markets as well as a number of large employers in Chester County including Vanguard, QVC and Simens Healthcare USA, which are headquartered in the county. Most of the Township's housing was built up between the 1970s and 1990s and today it is approximately 90% built out. KBRA views East Goshen's municipal resource base as very strong due to its diverse employment base, high income per capita at approximately 171% of the state and U.S. average, a high level of educational attainment at 208.6% of the state and 197.5% of the U.S. and a low level of poverty. The Township's 2012 full market value per capita was \$163,160 which KBRA views as very high.

KBRA views East Goshen's management structure and policies as extremely strong based on a comprehensive budget process, formal monthly and quarterly reporting on budget-to-actual performance, a history of accurate revenue and expenditure forecasting and multi-year financial planning. The Township budgets on a cash basis of accounting but reports financial results on a modified accrual (GAAP) basis of accounting, which KBRA views as a credit positive. The Township has historically maintained a high level of

reserves in the General Fund. This policy is expected to be formalized by resolution in FY 2014 and will require reserves be maintained at 20.0% of operating expenditures. In 2014, the Township will also implement a five-year capital improvement plan. KBRA views both of these changes as credit positives.

KBRA views East Goshen's overall debt burden and additional continuing obligations as low to moderate based on the direct and indirect debt per capita of \$5,164 and a debt to full market value of 3.8%. The Township has three pension plans for police, fire and non-uniformed employees and has historically made full payments of its minimum municipal obligation (MMO), which is generally comparable to the annual actuarial required contributions (ARC), on all of its plans. Municipalities receive state aid for pension obligations and this state aid has historically covered the entire MMO for the fire and uniformed employees but only covered 30.8% of the police plan MMO in 2012. The fire and non-uniformed pension plans had funded ratios of 86.9% and 142.3%, respectively, as of January 1, 2011. The Township does not offer OPEB benefits to fire and non-uniform employees. The Township is part of a regional police department which provides pension and OPEB benefits to police in East Goshen Township and Westtown Township. The Township is responsible for approximately 56% of the ARC costs for each plan based on a labor allocation formula. KBRA views the police funded ratio as moderate at 63.3% as of January 1, 2013. Without consideration of state aid, the Township's combined pension MMO payments for all three plans, totaled \$426,232 which represents 4.8% of FY 2012 total governmental expenditures. With consideration of state aid, the Township's actual contribution for all three pension plans in FY 2012 represented 3.8% of FY 2012 total governmental expenditures and the Township's actual contribution for pensions and OPEB benefits was 7.6% of FY 2012 total governmental expenditures.

KBRA views the financial position of East Goshen as very strong based on a history of structurally balanced budgets, operating surpluses for the past five years and increases to the unassigned General Fund balance. During the recession the Township performed very well with sizeable operating surpluses ranging from 6.1% to 24.3% of total General Fund expenditures, which KBRA views very positively. This strong financial performance has been due to increases in the earned income tax (EIT) revenues and the stability of the real estate tax revenues. The General Fund available fund balances has increased from 45.3% in FY 2008 to 79.4% in FY 2012, which KBRA views as very high. KBRA also views the Township's liquidity position as very strong with 466 days cash based on General Fund expenditures. A major source of General Fund revenue is the EIT which accounted for 52.6% of FY 2012 General Fund revenues. KBRA views the risk of dependency on the EIT as mitigated by to the stability the EIT has shown during the economic recession.

Outlook:

The stable outlook reflects KBRA's expectation that the Township will continue to manage its financial operations to maintain a structurally balanced budget and operating surpluses and maintain strong reserve levels as well as strong liquidity.

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Trend of operating deficits in General Fund operations.
- Significant deterioration in General Fund reserve levels.

Key Rating Determinants

Rating Determinant 1: Governance and Management Structure and Policies

KBRA views East Goshen's management structure and policies as extremely strong based on a comprehensive budget process, formal monthly and quarterly reporting on budget-to-actual performance, a history of accurate revenue and expenditure forecasting and multi-year financial planning. The Township has historically maintained a high level of reserves in the General Fund. This policy is being formalized in local statutes in FY 2014 and will require reserves be maintained at 20.0% of operating expenditures. In 2014, the Township will also implement a five-year capital improvement plan. KBRA views both of these changes as credit positives.

Municipal Bankruptcy

Act 47 of the Commonwealth of Pennsylvania, known as the "Distressed Municipalities Act," governs the process, and thus the ability of the Township to declare bankruptcy under the Federal Bankruptcy Code. Act 47 includes specific conditions under which a municipality may file a municipal debt adjustment action pursuant to the Bankruptcy Code. Act 47 also contains provisions and circumstances under which a municipality may be declared to be in "financial distress," making it eligible for interest-free loans, grants, and/or administrative assistance from the State Department of Community and Economic Development (DCED). The DCED would have the authority to recommend a plan to increase taxes or other sources of revenues, reduce services, or reschedule obligations. Over the years, Pennsylvania has made support available to distressed municipalities, though the statutory ability of the Commonwealth to directly intervene is somewhat limited.

Township Organization

East Goshen Township is governed by a Board of Supervisors (the Board) which acts as the executive and legislative branch of Township government. The Board is composed of five elected members serving six-year terms. The Vice Chairman of the Board and one other Board member have served more than 20 years each. The current Vice Chairman is also the liaison between the Township and the Municipal Authority. The Township Manager controls the day-to-day operations of the Township. Reporting to the Township Manager is the Chief Finance Officer (CFO)/Treasurer who along with the Finance Department is primarily responsible for preparing the annual budget, issuing monthly and quarterly reports on budget to actual performance and monitoring cash flow.

East Goshen Municipal Authority was established in 1967 to finance the construction of the Township's sewage collection and treatment facilities. A five-member board, appointed by the Township's Board of Supervisors, governs the Authority. The major function of the Authority is to provide financing for capital construction, expansion and upgrades to the Township's sewage collection and treatment facilities. The Township has the responsibility for daily operations through a leaseback arrangement with the Authority.

Financial Management Policies and Procedures

The Township's fiscal year ends December 31. The Township budgets on a cash basis of accounting and reports financial results on a modified accrual (GAAP) basis of accounting. The Township Manager submits

the proposed budget to the Board of Supervisors. The Board is required to publicly advertise the budget at least 20 days prior to adoption and must adopt the budget prior to December. According to management, the budget is developed using historical revenue and expenditure results as well as projections in GDP growth in the U.S. and Philadelphia. Management states, and review of historical financial statements confirm, that the Township has been accurate in its revenue and expenditure forecasting. The Township can and does make budget revisions throughout the course of the year to maintain fiscal balance; changes require approval by the Board.

East Goshen operates under a comprehensive framework of financial management procedures. The Township monitors cash flow on a bi-weekly basis through a "Treasurer's Report" produced by the CFO and provided to the Board; the report shows total revenues and expenditures for each fund recorded since the last Board meeting. The CFO also provides monthly and quarterly reports on budget-to-actual performance to the Board and these are publicly available on the Township's website. The reports are an established practice in the Township, though there is no local statute or written policy which requires them. Annually in June, the Township does multi-year planning going forward five years. The Township has historically maintained a high level of reserves in the General Fund. This policy is expected to be formalized by resolution in FY 2014 and will require reserves be maintained at 20.0% of operating expenditures. In 2014 the Township will implement its first formal five-year capital improvement plan and expects to review the plan at two-year intervals. KBRA views both of these changes as credit positives. The Township invests its funds based on requirements included in state statutes which are of a conservative nature.

Based on the foregoing, KBRA views East Goshen's governance and management structure and policies as being consistent with an AA+ rating. This rating level reflects frequent, formal reporting on budget-to-actual performance, a comprehensive budget process with a history of accurate revenue and expenditure forecasting and multi-year financial planning. It also reflects the Township's adoption of formal policies on maintenance of a high level of reserves in the General Fund and implementation of the Township's five-year capital improvement plan.

Rating Determinant 2: Municipal Resource Base

KBRA views East Goshen's municipal resource base as very strong based on high levels of per capita income at approximately 171% of the state and U.S. average, a high level of educational attainment at 208.6% of the state and 197.5% of the U.S. and low levels of poverty. The Township also has a diverse economic base with access to the Philadelphia and Wilmington labor markets as well as a number of large employers in Chester County including Vanguard, QVC and Simens Healthcare USA which are headquartered in the county. The Township's 2012 full market value per capita was \$163,160 which KBRA views as very high.

KBRA has included Chester County data in addition to state economic and demographic information in the analysis of the Township's municipal resource base, due to the relative size of the Township and its relationship with the larger county.

Economic and Demographic Characteristics

East Goshen Township was incorporated in 1817 and is a suburb of the City of Philadelphia. It is a residential community with a population of 18,050. The Township occupies a 10.1 square mile area and is located in the central portion of Chester County, approximately 25 miles west of the center of the City of Philadelphia, 15

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miles north of Wilmington, Delaware. The Township owns and maintains 62.5 miles of road and 434 acres of parkland and/or open space. Most of the Township's housing was built between the 1970s and 1990s and today is approximately 90% built out.

The Township's population grew 7.3% from 2000 to 2011 which is less than the growth rate of Chester County and the U.S. but greater than the state's growth rate of 3.7% during this same period. The Township has a well educated population with 55.7% of the population aged 25 or older having a B.A. degree or higher compared to 28.2% for the U.S. KBRA views East Goshen's income per capita as very high at 113.6% of the county and approximately 171% of the state and the U.S. Poverty levels in the Township are very low at 4.5% compared to 12.6% for the state and 14.3% for the U.S.

	East Goshen Township		Chester County		East Goshen as % of Chester County	Pennsylvania		East Goshen as % of PA	U.S.		East Goshen as % of U.S.
	% Chg from		% Chg from			% Chg from			% Chg from		
	2011	2000	2011	2000		2011	2000		2011	2000	
Population	18,050	7.3%	495,651	14.3%		12,742,886	3.7%		311,591,917	10.4%	
Age Dependency Ratio ¹	73.9%	8.4%	60.3%	-1.1%	122.6%	59.3%	-8.8%	124.6%	58.8%	-4.4%	125.7%
Population with B.A. Degree or higher ²	55.7%	3.9%	48.1%	13.2%	115.8%	26.7%	19.2%	208.6%	28.2%	15.6%	197.5%
Poverty Level	4.5%	28.6%	6.1%	17.3%	73.8%	12.6%	14.5%	35.7%	14.3%	15.3%	31.5%
Income per capita	\$47,752	26.4%	\$42,042	32.9%	113.6%	\$27,824	33.3%	171.6%	\$27,915	29.3%	171.1%

Source: U.S. Census Bureau is used as the source in order to provide a consistent comparison among different units of government.

¹ Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.

² Percent of the population aged 25 and over.

Employment

East Goshen Township has a diverse employment base with opportunities in Philadelphia, Wilmington and Chester County. Chester County's three largest employers, which all have headquarters in the County, are Vanguard Group Inc., QVC Network and Simens Healthcare USA. Other large county employers include the federal government, Chester County, Mainline Hospital and Chester County Hospital. The largest employers in the Township itself are CTDI (telecommunications company), QVC, Syntheses (division of Johnson & Johnson and is a medical equipment manufacturer), Zeks Compressed Air (specialized equipment manufacturer) and Mars Drinks.

KBRA uses Chester County unemployment rates as East Goshen Township unemployment rates are not available. Over the past five years, county unemployment rates have been significantly lower than both Pennsylvania and the U.S. In 2008 the unemployment rate was 4.0% compared to 5.3% for the state and 5.8% for the U.S. In 2009 the unemployment rate in the County began to rise and increased to 6.5% 2010. This was significantly lower than the state and the U.S. 2010 unemployment rate of 8.4% and 9.6%, respectively. In 2011 and 2012 the County's unemployment rate declined and was 6.1% in 2012 compared to 7.9% for the state and 8.1% for the U.S in 2012. Preliminary July 2013 unemployment rates for the County show an increased unemployment rate of 6.4%, however, this is still considerably below the state and the U.S.

Unemployment Rates (not seasonally adjusted)			
Year	Chester County	Pennsylvania	U.S.
2008	4.0%	5.3%	5.8%
2009	6.2%	7.9%	9.3%
2010	6.5%	8.4%	9.6%
2011	6.1%	7.9%	8.9%
2012	6.1%	7.9%	8.1%
July 2013*	6.4%	7.8%	7.7%

Source: U.S. Bureau of Labor Statistics

*Preliminary estimate for Chester County.

Property Tax Base

The Township's property tax base grew significantly between the years of 2002 to 2008 with full market value growth of 52.5% and assessed valuation growth of 18.4% during this time. Since 2008 the Township's full market value has increased 12.1% to a 2012 full market value of \$2.5 billion while assessed valuation has remained relatively flat during this period. While there has been some new construction in the Township, a relatively large number of individual property tax appeals have contributed to the Township's flat assessed value. The Philadelphia housing market did not see the high level of market appreciation on housing prices as other areas in the U.S. which have had moderated declines in assessed value since 2008. The Township's 2012 full market value per capita was \$163,160, which KBRA considers to be in the high.

The top 10 taxpayers in the Township account for 7.1% of 2012 assessed valuation which KBRA considers to be very diverse. Current year tax collections since 2008 have averaged 98.0%, a level which KBRA considers high.

East Goshen Township's 10 Largest Taxpayers as of 2012			
Company	Business	Net Taxable Valuation	% of Assessed Value
Hankin Family Limited Partnership	Apartment Complex	\$17,328,750	1.1%
HCRI PA Property Holding Company	Apartment Complex (Assisted Living)	14,897,480	0.9%
First Somerset LLC	Apartment Complex (Assisted Living)	13,326,280	0.8%
Comcast Cable	Commercial/Industrial	12,655,500	0.8%
Synthes USA	Commercial/Industrial	11,574,200	0.7%
QVC Network	Commercial/Industrial	11,375,160	0.7%
Metric Institutional Investors	Apartment Complex	9,971,320	0.6%
Home Properties Waterview LLC	Apartment Complex	8,504,000	0.5%
Flavia Beverage Systems LLC	Commercial/Industrial	8,157,000	0.5%
First Somerset LLC	Apartment Complex (Assisted Living)	7,720,370	0.5%
Total		\$115,510,060	7.1%

Source: East Goshen Township DelVal Financial and Socioeconomic Information

Based on the foregoing, KBRA views the Township's municipal resource base as being consistent with an AAA rating. This rating level reflects the high per capita income levels at approximately 171% of the state and

national averages, high full market value per capita, high levels of educational attainment, low level of poverty and a diverse county employment base.

Rating Determinant 3: Debt and Additional Continuing Obligations

KBRA views East Goshen's overall debt burden and additional continuing obligations as low to moderate based on the level of per capita debt and debt to full value relative to other local municipalities. The Township has three pension plans for police, fire, and non-uniformed employees and has historically made full payments of its minimum municipal obligation (MMO), which is generally comparable to the annual actuarial required contributions (ARC), on all of its plans. The fire and non-uniformed pension plans had funded ratios of 86.9% and 142.3%, respectively, as of January 1, 2011. The Township does not offer OPEBs to fire and non-uniform employees. The Township is part of a regional police department which provides pension and OPEB benefits to police in East Goshen Township and Westtown Township. East Goshen funds approximately 56% of the ARC for each plan based on a labor allocation formula. KBRA views the police funded ratio as moderate at 63.3% as of January 1, 2013.

Overall Direct and Overlapping Debt

East Goshen's total direct debt outstanding is \$17.6 million. KBRA's total direct debt calculation of East Goshen includes the Township's debt of \$6.4 million and the Municipal Authority's lease rental debt at \$11.2 million which includes the Notes from this issuance. Almost all of the Township's direct debt, with the exception of \$1.3 million, is in the form of fixed-rate loans from Delaware Valley Regional Finance Authority. The \$1.3 million represents East Goshen's share of the cost of construction of a regional police building.

East Goshen's total direct and overlapping debt is \$93.2 million which equates to a debt per capita of \$5,164, a level which KBRA considers to be moderate. The overlapping debt is the Township's allocable portion of the total debt outstanding from both Chester County and West Chester Area School District. KBRA views overall debt as a percentage of 2012 full market property valuation to be low at 3.8%. The ratio of direct debt service to FY 2012 total governmental expenditures is 9.4%, a level which KBRA considers moderate. Amortization of direct debt is considered by KBRA to be above average at 57.9% of principal to be retired within 10 years and 99.0% retired within 20 years.

East Goshen Township's Debt Ratios	
KBRA Metric	Ratio
Overall direct and indirect debt per capita	\$5,164
Overall direct and indirect debt as % of 2012 full market value of property	3.8%
Debt amortization within 10 years	57.9%
Debt amortization within 20 years	99.0%
Direct debt service as a % of total governmental expenditures	9.4%

Source: Delaware Valley Regionally Finance Authority and Pennsylvania State Tax Equalization Board

Township Pension Plans and OPEB Liability

East Goshen has three pension plans for its police, fire and non-uniformed employees. The Township is responsible for the administration of its fire and non-uniformed pension plans. The fire pension plan is a

defined benefit plan with nine members and has a funded ratio of 86.9% as of January 1, 2011. The MMO for the fire plan was \$51,412 in FY 2012, which represents less than 1% of FY 2012 governmental expenditures. Historically, the Commonwealth provides state aid to municipalities specifically to cover local pension plans. In 2012 state aid fully covered the MMO for the fire plan.

The Township's non-uniformed defined benefit plan, with 35 members, was frozen as of December 31, 2010. The plan had a funded ratio of 142.3% as of January 1, 2011. No additional employees will be admitted into this plan and, as of January 1, 2011, further benefits for existing plan members will be provided through a defined contribution plan funded by the Township. The Township is contributing 5.0% of the eligible employee's compensation. State aid, which covered the entire MMO for the defined benefit plan, will now pay the Township's contribution to the defined contribution plan. The Township does not offer OPEB benefits to fire and non-uniform employees.

East Goshen Employment Retirement Funds				
Pension Plan Name	Funded Ratio ¹	Fiscal Year	Minimum municipal obligation (MMO) ²	Percentage of MMO Funded
Police	60.3%	2012	\$626,130	100.0%
Fire	86.9%	2012	\$51,412	100.0%
Non-uniformed	142.3%	2012	-	-

Source: East Goshen Township Financial Statements

¹ The most recent actuarial valuation date was January 1, 2011.

² Minimum municipal obligation (MMO) is generally comparable to the annual actuarial required contribution (ARC)

The Westtown-East Goshen Township Police Pension Plan is a shared plan between the Township of East Goshen and the Township of Westtown. The plan is administered by the Regional Police Commission (the Commission) and consists of three voting members: one supervisor from both East Goshen and Westtown and one citizen at large. Contributions are determined from a labor cost allocation formula with calculations based on police hours spent in each township. Members are required to contribute 5% of compensation. Based on the allocation formula, the Township is responsible for 56% of the MMO. The state provides specific aid to pay regional police pension plans; for 2012 state aid covered 30.8% of the total plan MMO. Without consideration of state aid, the Township's contribution to 2012 MMO represented 7.5% of FY 2012 governmental expenditures. With consideration of state aid, the Township's actual pension contribution to the police plan represented 3.8% of FY 2012 total governmental expenditures. As of January 1, 2013 the police pension plan had a funded ratio of 63.3%. Legacy costs and disability pensions are factors in the low pension funded ratio. East Goshen is discussing various options, including setting up an irrevocable trust for the police pension plan to offset future increases in the Township's share of police pension costs.

The Regional Police Commission also administers medical and prescription drug benefits to eligible retired employees and spouses (OPEB) through a defined benefit plan; the Commission funds these obligations on a pay-as-you-go basis. The Township does funds its police OPEB obligations on an actuarial basis. The Township's portion of the ARC payment is based on the allocation formula determined by the Commission. This payment is deposited into an irrevocable trust to account for the Township's portion of its payments. In 2012 the Township's contribution was equal to 56% of the total ARC or \$335,891 which represents 3.8% of total governmental expenditures. The police OPEB plan was renegotiated in 2013 and the plan's ARC will

decline 60% in 2014. As a result, East Goshen's portion of the ARC contribution for FY 2014 will equal just 1.6% of FY 2012 total governmental expenditures.

Without consideration of state aid, the Township's combined pension MMO payments for all three plans attributable to East Goshen totaled \$426,232 or 4.8% of FY 2012 total governmental expenditures. With consideration of state aid, the Township's actual contribution for all three pension plans in FY 2012 was 3.8% of FY 2012 total governmental expenditures. The Township's actual combined contribution for pensions and OPEB benefits was 7.6% of FY 2012 total governmental expenditures. Without consideration of state aid, East Goshen's FY 2012 total fixed costs, defined as debt service, pension MMO payments and OPEB payments, was \$1.6 million which represents 18.1% of total governmental expenditures in FY 2012.

Delaware Valley Finance Authority

After this borrowing, almost all of the Township's direct debt, with the exception of \$1.3 million, is in the form of fixed-rate loans from Delaware Valley Regional Finance Authority (DelVal). DelVal was created in 1985 to provide loans to local governments in Pennsylvania and since then has originated loans to more than 170 different local governments. Approximately \$1.0 billion of DelVal bonds are outstanding to provide funds for the loan program.

Pursuant to the loan agreements relating to the Series 2013 Notes issued by the Municipal Authority, there are certain swap-related risks allocable to the Township in that DelVal can assess any swap termination costs of the program on a proportionate basis to the Township and the other borrowers under the program. The swap agreements with the various swap counterparties include rating downgrade triggers for automatic termination for the counterparties and DelVal. As of September 3, 2013, in the event that all DelVal swaps were terminated, the aggregate combined mark-to-market termination value allocable to the East Goshen Municipal Authority and the Township would be a positive \$1.05 million. In the event only the swaps specific to the East Goshen loans were terminated, due to a default by East Goshen on its loans, the mark-to-market termination value would be a negative \$1.37 million to the Township. To the extent that defaults on loans in the DelVal program create a liquidity problem and impact payment of DelVal debt, a portion of the payment deficiency is allocable on a proportionate basis to the Township and the other borrowers under the program. The risk of a deficiency on a program level is mitigated by the fact that the loan portfolio currently consists of general obligation loans with 57% of loans rated in the AA category or higher. Also, the DelVal program currently has over \$100 million in program reserves which would be available to fund any program level deficiency.

Based on the foregoing, KBRA considers East Goshen's debt and continuing obligations profile as being consistent with a AA+ rating, based on a low level of debt to full market value, above average debt amortization, timely historical and current payment of full pension MMO. The rating also reflects the Township's moderate level of debt on a per capita basis, moderate level of direct debt service as a percent of governmental expenditures and moderate funding level of regional police pension plan.

Rating Determinant 4: Financial Performance and Liquidity

KBRA views the financial position of East Goshen as very strong based on a history of structurally balanced budgets, operating surpluses for the past five years and increases to the available General Fund balance. During the recession, the Township performed very well with sizeable operating surpluses ranging from 6.1%

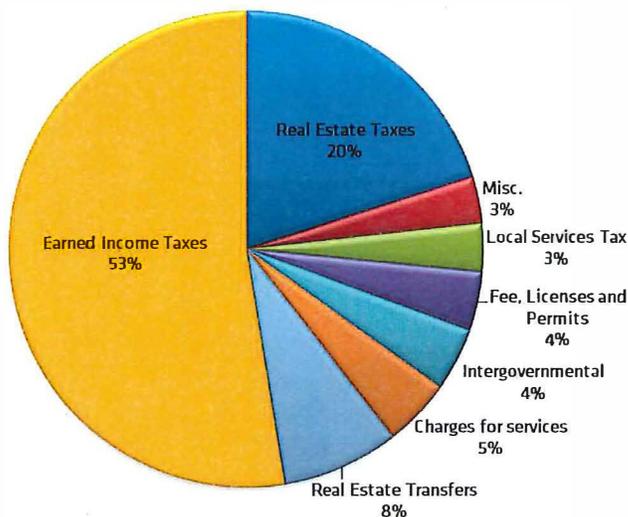
to 24.3% of total General Fund expenditures, which KBRA views positively. In FY 2012 the General Fund available fund balance was \$6.4 million or 79.4% of FY 2012 General Fund expenditures which KBRA views very high. KBRA also views the Township's liquidity position as very strong with 466 days cash based on General Fund expenditures.

The General Fund is the primary operating fund of the Township and is the focus of KBRA's financial performance analysis. The Township's fiscal year ends December 31. The Township budgets on a cash basis of accounting and reports financial results on a modified accrual (GAAP) basis of accounting.

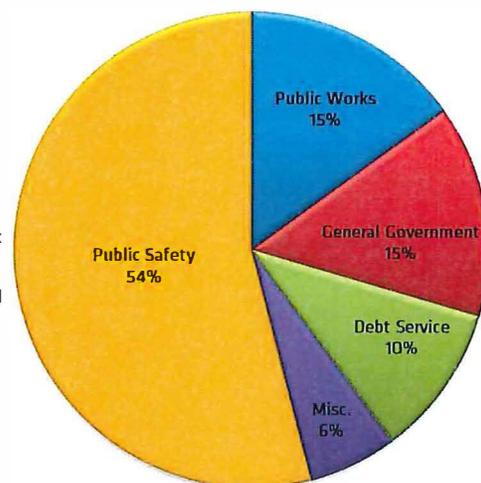
Diversity of Revenues

The largest source of revenue for the Township is the earned income tax (EIT) which accounted for 52.6% of FY 2012 General Fund revenues. The EIT is a 1% tax levied on earned income on residents of the Township. For residents that live and work in the Township, the Township receives 50% of the EIT, with 50% going to the West Chester Area School District. If non-residents work in the Township and live in an area that does not charge its own earned income tax then the entire 1% EIT is received by the Township. However, if the resident works in Philadelphia, the Township receives no EIT, as it is collected by Philadelphia. KBRA views the risk of dependency on the EIT as mitigated by the stability of this revenue source during the economic recession. FY 2009 showed a slight decline in the EIT of 2.7% from the prior fiscal year and then showed a 3.9% increase in FY 2010, a 1.1% increase in FY 2011 and a 20.5% increase in FY 2012. The large increase in FY 2012 EIT resulted from the acceleration of collections of capital gains taxes in anticipation of changes in federal income taxes on January 1, 2013.

East Goshen Township's
FY 2012 General Fund Revenues



East Goshen Township's
FY 2012 General Fund Expenditures



Source: East Goshen Township FY 2012 Audit

The Township's second largest revenue source is real estate taxes which accounted for 20.1% of FY 2012 General Fund revenues. The Township implemented a local real estate tax of 1.25 mills in FY 2004; this tax rate has remained the same and there are no current plans by management to increase it. This revenue

source performed relatively well in the recession with real estate taxes remaining relatively flat between FY 2009 and FY 2012.

Balanced Operations

The financial operations of the Township of East Goshen's General Fund have been structurally balanced and have ended each fiscal year between 2008 and 2012 with an operating surplus. During the recession the Township performed very well with sizeable operating surpluses ranging from 6.1% to 24.3% of total General Fund expenditures, which KBRA views positively. This strong financial performance has been due to the increase in earned income taxes and the stability of the real estate taxes. The Township's General Fund revenues were flat in FY 2009 and then increased 4.5% in FY 2010 and 3.0% in FY 2011. The Township's lowest available fund balance in the past five years was in FY 2009 at 44.5% of General Fund expenditures, which KBRA still views as very high. Since FY 2009, the available fund balance increased in every year; in FY 2012 the available fund balance was 79.4% of FY 2012 General Fund expenditures. FY 2012 total General Fund revenues increased 11.0% from the prior year which as discussed was due to large increases in the EIT and a large increase in the real estate transfer taxes due to the sale of a large retirement community.

FY 2013 Results

As of September 30, 2013 management projects that FY 2013 will end with an operating surplus of \$465,172, compared to an originally budgeted deficit of \$450,071, and an increase in the total General Fund balance to \$6.5 million or 81.3% of FY 2012 General Fund expenditures. The budget included a deficit for the purpose of drawing down the available General Fund balance for capital projects. The positive variance is primarily from higher than expected earned income taxes and real estate transfer taxes exceeding the budget by \$150,000 and \$50,000, respectively, as well as the delay of capital projects that were budgeted in the General Fund Management is projecting balanced budgets in FY 2014 and FY 2015.

General Fund FY 2008-FY 2012 Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis)					
	2012	2011	2010	2009	2008
General Fund Revenue	\$10,040,568	\$9,042,252	\$8,782,139	\$8,401,838	\$8,403,835
<i>percent change</i>	11.0%	3.0%	4.5%	0.0%	
General Fund Expenditures	8,075,532	7,930,384	7,971,625	7,920,456	7,580,563
<i>percent change</i>	1.8%	(0.5%)	0.6%	4.5%	
Surplus (Deficit) from Operations	1,965,036	1,111,868	810,514	481,382	823,272
Total Other Financing Sources (Uses)	(337,553)	(274,359)	(328,870)	(395,561)	(471,832)
Net Change in Fund Balance	1,627,483	837,509	481,644	85,821	351,440
Total Fund Balance	\$6,468,069	\$4,840,586	\$4,003,077	\$3,521,433	\$3,435,612
Nonspendable	\$54,000	\$7,565			
Unassigned	\$6,414,069	\$4,833,021	\$4,003,077	\$3,521,433	\$3,435,612
Available Fund Balance as a % of General Fund Expenditures	79.4%	60.9%	50.2%	44.5%	45.3%

Source: East Goshen Township FY 2008- FY 2012 Annual Financial Reports

Liquidity Position

As of December 31, 2012, the Township's cash position in its governmental funds totaled \$10.3 million. This equates to over 466 days cash, based on General Fund expenditures which KBRA views as a very strong liquidity position.

Based on the foregoing, KBRA views East Goshen's financial performance and liquidity as being consistent with an AAA rating. This rating level reflects the Township's consistently high level of available General Fund balance as a percent of General Fund expenditures, consistent operating surpluses and strong liquidity position. KBRA views the dependence on the EIT as mitigated by its stability during the recent national recession.

Conclusion

KBRA has assigned an AAA rating with a stable outlook to East Goshen Municipal Authority, PA's General Obligation Notes, 2013 Series and the Township's outstanding general obligation debt based on the factors discussed above.

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